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MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE)
APPLICATION OF GOODMAN)
WATER COMPANY FOR A)
DETERMINATION OF THE FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN)
ITS RATES AND CHARGES FOR)
UTILITY SERVICES BASED THEREON)

No. W-02500A- 06-0281

APPLICANT'S SECOND SET OF
DATA REQUESTS

1. Please indicate whether the Staff believes that the cost of equity equals the compensation that investors expect for bearing the risk of ownership of a stock?
If so, please explain the basis for your response.
2. Does Staff maintain that the six sample water utilities selected for comparison by Mr. Irvine are comparable to the Company --
 - in terms of investment risk?
 - in terms of market risk?
 - in terms of the level of risk posed by an investment in the common equity?

- In terms of the risk associated with an investment in the common stock of each? Has that risk increased or decreased?

Explain the basis for your response, including each factor or characteristic Staff considered in its selection process.

3. Please provide the average annual total market returns for each utility in Staff's sample group for the historical 1, 3 and 5 year periods.
4. Please provide the historical 5 and 10 year average stock price growth and book growth for the six publicly traded water utilities in Staff's sample group. Are these growth rates the same as the historical DPS and EPS growth rates? If they are not the same, how are they different?
5. Is the Staff's proposed cost of equity acknowledge investor expectations?
6. Is the return that investors expect for a given stock equal to the level of return that other firms with equivalent levels of risk also yield? Explain the basis for your answer.
7. Please indicate whether Staff believes that historical annual total market returns influence investor expectations? If so, please indicate to what extent they do, and if not, please explain why Staff believes it not to be the case.
8. Are total historical market returns more or less important than historical EPS and DPS growth in developing estimates of investor expectations?
9. Please provide any studies, reports or other supporting reference materials that concludes the analysts' estimates for the water utility industry from Value Line, and/or the S&P Earnings Guide, and/or Zacks are overly optimistic.
10. Please state the assumptions of the DCF constant growth model.
11. Does Staff believe that the estimated betas published by Value Line:
 - provide a useful measure of investment risk?
 - provide a useful measure of market risk?

Please, explain the basis for your answers, including the relationship between beta and investment risk, between beta and market risk, and between market and investment risk?

12. Discounted Cash Flow - With regards to the Dividends Per Share (DPS) and the Earnings Per Share (EPS) for six sample water utilities selected by Mr. Irvine, please indicate:

- the historical 5 and 10 year arithmetic means of DPS and EPS growth
- the historical 5 and 10 year geometric means for DPS and EPS growth

13. Discounted Cash Flow - In connection with the geometric mean and the arithmetic mean of historical DPS and EPS growth rates:

- which methodology does Staff rely upon, and why?
- which methodology does Staff rely upon in estimating the cost of capital, and why?

As the Procedural Order issued in this matter on July 28, 2006, requires the Applicant to file its rebuttal by December 20, 2006, Applicant respectfully requests that Staff provide its answers to the Applicant's First, Second, and Third Set of Data Requests by December 15, 2006.

RESPECTFULLY SUBMITTED this 11th day of December, 2006.

LEWIS AND ROCA


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Attorneys for Goodman Water Company

1 ORIGINAL AND thirteen (13) copies
2 of the foregoing delivered VIA DHL
3 this 11th day of December, 2006

4 Arizona Corporation Commission
5 Utilities Division – Docket Control
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 COPY of the foregoing delivered VIA
9 U.S. MAIL this 11th day of December, 2006

10 Goodman Water Company
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12 Tucson, AZ 85718

13 By:  _____

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